

Data Sheet

USAID Mission:	Georgia
Program Title:	Energy and Environment
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	114-0151
Proposed FY 2004 Obligation:	\$8,000,000 FSA
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$8,000,000 FSA
Year of Initial Obligation:	FY 2004
Year of Final Obligation:	FY 2008

Summary: This program further strengthens and develops the private-sector-led energy production, supply and distribution systems, while supporting the Government of Georgia (GOG) in the development and implementation of market-friendly energy sector policies and regulatory framework. USAID's emphasis is three-fold: a) improved financial and commercial performance of energy sector entities; b) development of a more diversified, renewable, and cost effective energy supply; and c) improved energy sector efficiency in economic terms, with subsequent increases in capital and operating resources. The current state of Georgia's energy sector infrastructure borders on catastrophic failure. Internally-generated revenues and private investment need to increase before real improvements in customer service are possible. Beneficiaries are the approximately 1.3 million residential household and commercial consumers of electricity, and potentially an equal number of natural gas customers.

Inputs, Outputs, Activities:

FY 2004 Program:

Energy restructuring and privatization (\$4,500,000 FSA). Several energy activities from the last strategy will be continued into this new SO. Two years ago the GOG prepared a national energy strategy designed to improve the supply and distribution of energy resources throughout Georgia. Key elements of this strategy include improving the financial state of the sector, ensuring energy independence, assistance to socially vulnerable groups, increasing energy efficiency, and modernizing and rehabilitating the electric power sector. To assist the GOG in implementing this strategy, USAID funded the Georgia Energy Sector Initiative (GESI) in FY 2003. This initiative provides technical assistance to improve the performance of Georgia's energy sector, leading to increased energy security and independence.

The level of funding for this activity is linked to the GOG meeting specific benchmarks. Most of the benchmarks are keyed to critical aspects of the national energy strategy. Emphasis is placed on the implementation of policies related to: sector debt management; improved collections from electricity market customers; rationalizing state budget management related to electricity bill payment by the public sector entities; honoring payments for energy supplied by external sources; and planning for the utilization of national energy resources. Principal contractor: PA Consulting, USA.

Energy and Environmental policy, legislation and regulation (\$1,000,000 FSA). Personnel of the State Agency for the Regulation of Oil and Gas Regulation will receive training in the following areas: contract preparation and legal responsibilities; site-safety issues; and monitoring of environmental compliance related to exploration, development, and transportation of oil and gas resources. The Ministry of Fuel and Energy and the Georgian National Energy Regulatory Commission will also receive training. The training program will increase Georgia's capacity to effectively protect the environment and natural resources while developing indigenous sources of energy. Principal contractor: to be determined.

Public Awareness and Community Outreach (\$2,000,000 FSA). In order to increase public and stakeholders' involvement and awareness of critical issues in the sector, including commercialization of the United Distribution Company, and to combat corruption in the energy sector, USAID will fund a public awareness and outreach program. Supply cut-offs due to payment arrears by some distribution branches

and shortfalls in production due to degradation of hydropower stations have generated, rather unfairly, an anti-reform and even anti-American sentiment in some regions. Through this public awareness and outreach program, USAID plans to improve public attitudes, which is critical to the accomplishment of expected results under this SO. Principal contractor/grantee: to be determined.

Program development and support (\$500,000 FSA). USAID will use these funds to support program-funded management staff and to cover other costs related to program design and development.

FY 2005 Program:

Energy security, restructuring and privatization (\$2,000,000 FSA). Incremental funding to support the program initiated in FY 2003. Principal contractor: same as above.

Energy and Environmental policy, legislation and regulation (\$3,600,000 FSA). Incremental funding to support the program initiated in FY 2004. Principal contractor: same as above.

Public Awareness and Community Outreach (\$2,000,000 FSA). Incremental funding to support the program initiated in FY 2004. Principal contractor: same as above.

Program development and support (\$400,000 FSA). USAID will utilize these funds to support program-funded management staff and other costs related to program design and development. Principal contractor: same as above.

Performance and Results: FY 2003 performance of this SO did not meet expectations. Throughout FY 2003, the energy sector in Georgia continued to be plagued by extremely low revenue collection and poor cash-flow management. Efforts to address the poor financial discipline were focused on start-up of GESI, inclusion of the management of the United Distribution Company, and the close cooperation with the two management contracts for the wholesale electricity market and the transmission and dispatch organizations. There were no efforts to privatize energy sector assets during FY 2003. Until increased collection of revenues from customers is demonstrated, there will be little private sector interest to purchase the assets.

Throughout FY 2003, the donor community, led by USAID, has worked with the GOG to formulate an action plan to focus attention on key steps in the reform process. The action plan was successful in getting the large industrial customers of the power system to pay for 100% of their consumption in cash. Many of the industrial consumers are state-owned enterprises. Furthermore, the action plan has mobilized the GOG, with the support and assistance of the German government, to initiate a sector-debt restructuring agency. This plan will address the persistent problems arising from the trading and manipulation of legacy debt that destroys the cash flow and liquidity of the sector entities.

USAID, under the guidance of the State Department and the U.S.Embassy, terminated one of GESI's larger components-the rehabilitation of hydroelectric facilities. This action is a result of poor performance by the GOG to implement reforms in the energy sector, and its general failure to meet revenue collection requirements of the State budget. Although there is a critical shortage of power supplied to the distribution system, it was deemed imprudent to supply non-paying customers. GESI will focus more on improving revenue collections in targeted regions of Georgia.